

This flash report is unaudited and the translation of the Japanese language version.

Flash Report for the 2nd Quarter of Fiscal Year Ending May 31, 2023
[under Japanese GAAP] (Non-consolidated) December 20, 2022



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 Quarterly Report Filing Date (as planned): January 10, 2023
 Schedule for dividends payment: -
 Preparation of supplementary materials on quarterly financial results: Yes
 Holding of quarterly financial results conference: Yes (for analysts and institutional investors)

(Amount of less than ¥1 million are rounded down)

1. Financial results for this term (from June 1, 2022 to November 30, 2022)

(1) Operating result (% of change from previous year)

	Revenue		Operating Income		Ordinary Income		Net Income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
2nd Quarter, May 2023	107,796	5.6	34,707	1.8	34,834	1.9	24,158	2.0
2nd Quarter, May 2022	102,084	1.8	34,079	3.1	34,177	3.5	23,685	3.5

	Net income per share		Net income per share (diluted)	
	Yen	Sen	Yen	Sen
2nd Quarter, May 2023	188	49	188	45
2nd Quarter, May 2022	184	94	184	88

(2) Financial Position

	Total Assets	Net Assets	Ratio of shareholders' equity
	Million Yen	Million Yen	%
2nd Quarter, May 2023	234,800	130,168	55.4
FY ended May 2022	236,868	125,355	52.9

Shareholders' equity 2nd Quarter, May 2023: 130,078 Million Yen (May 2022: 125,243 Million Yen)

2. Dividends

	Dividend per share									
	1 st Quarter end		2 nd Quarter end		3 rd Quarter end		Fiscal Year End		Total	
	Yen	Sen	Yen	Sen	Yen	Sen	Yen	Sen	Yen	Sen
FY ended May 2022	-		0	00	-		160	00	160	00
FY ending May 2023	-		0	00						
FY ending May 2023 (Forecast)					-		-		-	

(Note1) Revision of outlook for dividends in this quarter: No

(Note2) Year-end dividend for this fiscal year has yet to be determined.

3. Forecast for the May 2023 term (from June 1, 2022 to May 31, 2023)

(% of change from previous year)

	Revenue	Net income per share
	%	Yen
Entire term	1.0~4.0	400.00~410.00

(Note1) Revision of forecast for May 2023 term in this quarter: No

(Note2) Company uses ranges of values for the forecast. Please refer to 1. Qualitative Information on Results in the Quarter under Review, (3) Qualitative Information on Forecasts, on page 5.

(Note3) Estimation of effective tax rate is 30.8%

4. Other information

(1) Adoption of specified accounting methods for the preparation of quarterly non-consolidated financial statements: Yes

(2) Changes in accounting policies, procedures, presentation rules, etc

- (i) Changes in accounting policies due to revision of accounting standards : None
- (ii) Changes in accounting policies due to reasons other than (i): None
- (iii) Changes in accounting estimates : None
- (iv) Restatements : None

(3) The number of shares outstanding (common stock)

(i) The number of shares outstanding (inclusive of treasury stock)	2nd Quarter, May 2023	128,267,571	shares
	FY ended May 2022	128,256,471	shares
(ii) The number of treasury stock	2nd Quarter, May 2023	27,376	shares
	FY ended May 2022	118,544	shares
(iii) The number of average shares outstanding (cumulative, non-consolidated, year to date)	2nd Quarter, May 2023	128,169,936	shares
	2nd Quarter, May 2022	128,068,299	shares

(Note) The Company's stock held by Board Incentive Plan Trust and Employee Stock Ownership Plan Trust is included in the number of treasury stock.

The treasury shares which remain in the BIP trust and the ESOP trust are included in the treasury stock to be deducted in the calculation of the number of average shares outstanding during the term.

Caution1:

These quarterly financial statements are outside the scope of quarterly review procedures.

Caution2:

Above forecast is based on the information available at a time of issuance of this report, and the actual result may change by various reasons. Please refer to Qualitative information on Forecasts, on page 5.

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1. Qualitative Information on Results in the Quarter under Review

(1) Qualitative Information on Business Outcomes

Overview

During the second quarter under review (from June 1, 2022 to November 30, 2022, hereinafter “this quarter”), the Japanese information services industry in which the Company operates were gradually recovering in migrating to the Cloud and IT investment aimed at corporate growth and boosting competitiveness, including investing in new technologies exemplified by Autonomous, AI, Machine learning or Deep learning technology, improving efficiency through the use of variable digital data, building the IT environment to realize sustainable management and strengthening contact points with end users.

In this business environment, the Company is expanding our Cloud business for realizing Customers’ innovation, for their business transformation, and for supporting their firm growth.

As the COVID-19 virus (Coronavirus) was showing up in early 2020, the Company recognizes that one of its most important business missions is to protect safety and health of its employees’ and customers’ and to continue its business stably. The Company has shifted promptly to remote working style and pressed ahead with efforts to ensure efficient risk management and to strengthen our sales capabilities continuously. The Company re-opened its offices in phases which could realize a higher level of autonomy and hybrid working style.

As a result of these measures, the Company posted 107,796 million yen (up 5.6 % year on year) in revenue, 34,707 million yen (rising 1.8 %) in operating income, 34,834 million yen (gaining 1.9 %) in ordinary income and 24,158 million yen (increasing 2.0 %) in net income. For revenue and each profit category indicated attained hit record high as this second quarter.

Go to Market Strategy

Mission Statement

The Company is aiming for further business growth by supporting our customer’s cloud migration of their core systems and active data utilization. Its mission is to help people see data in new ways, discover insights, unlock endless possibilities.

We have confidence that continuing to evolve ourselves and navigating the evolution of our customers will be a step toward guiding the world in the right direction, and ultimately will contribute to society and humankind.

Our Strength

The Company is aiming for further business growth by supporting our customers’ cloud migration of their core systems and active data utilization with deepen customer-trust, which is based on “Be a TRUSTED TECHNOLOGY ADVISOR”. We have practiced DX (Digital Transformation) with our Cloud Journey to the Cloud by own technology which brought business success to ourselves. By accelerating to deploy and implement our technology to the customers, we support their Cloud Journey to Data-driven DX.

The Company has the comprehensive product portfolio which consists of platform, applications, hardware which can be deployed on cloud environment and on-premise environment. Especially our software license products have been widely adopted in the field of mission critical systems, which have demanded high security, availability and high performance for many years. The Oracle Cloud, which the Company has focused on as a pillar of its new business, has been developed based on the same system architecture and technologies as these software licenses, and the Company enjoys a strength in enabling coordination and bidirectional migration between on-premises systems built with the software licenses products and the Oracle Cloud.

Key Initiatives

The Company is further accelerate to provide its Cloud services, which maximize the value of information by data-driven approaching and supporting services for customers to utilize our Cloud Services that we have been focusing on. License team and Cloud one proceed the deals and projects by cooperating with each other, hereby the Company drives its customers’ Cloud Transformation. Furthermore, we reinforce our industry model by collaborating cross-functionally, which contribute customers’ business with deploying optimal Oracle Solutions in each industry.

The five measures which make “To Accelerate Cloud Transformation”

1) Mission Critical Systems Modernization

To support the transformation of cost structure, the minimization of business continuity risk, and the balance of the ability to adjust and respond to change.

2) End-to-End Business Process Digitalization

To support the reduction of back office load and the concentration of management resources on high-value-added businesses.

3) Resilient Social Infrastructure Realization

To support the realization of a robust and secure social infrastructure which is required for Economic Security.

4) Business and Social Sustainability Acceleration

To support the enhancement of corporate value in the mid-term and the realization of a Sustainable economy by power of IT.

5) Co-Innovation Partner Eco-system Enhancement

To promote our key initiatives by leveraging a mutual strength of us and our stakeholders.

(Glossary)

- Cloud service: Providing software and hardware resources which are used for IT system infrastructure at companies and other organizations as services under agreements for certain periods through the networks such as Internets.
- On-premises: A form of IT system developed and operated as the company's possession.

Business status in the 2nd Quarter of the fiscal year (from September 1, 2022 to November 30, 2022)

[Cloud & Licenses]

In the Cloud license and on-premise license, the Company has developed its strength of products and services to its Customers under our strategy stated above.

Regarding our License business, the market is showing a recovery trend in IT investment which is not only for cost reduction but developing and growing their business.

In terms of Partner business side, we are expanding our cooperative ties of alliance and keep on expansion our Cloud partnership, while creating new demands on SME market segment.

Concerning the Cloud services, we delivered some achieve results for Cloud Migration (from On-premise to Cloud services) which are mainly “Oracle Fusion Cloud ERP” to our install-based customers, and also it has been deployed to the new customers in variable industries for accelerating Cloud shifting.

Regarding “Oracle Cloud Infrastructure (OCI)”, there is a lot of demands from customers putting a weight on performance, security and cost effectiveness that has led to the usage of our Tokyo and Osaka region data center are successfully increasing continuously with expansion its Cloud datacenter.

We have been authorized ISMAP (Information system Security Management and Assessment Program) for Government Cloud supplier with OCI, PaaS and Oracle Exadata Cloud@Customer.

Furthermore, our OCI is selected as Cloud service for government cloud development at the Digital Agency in FY2023 (until the end of March, 2023), and prospective benefits amid a push for government digitalization include an acceleration and increase in investment, larger projects, and further stimulation of demand over the mid-long term.

NetSuite for SME market remained brisk performance in adding new customers who adopted Cloud ERP.

Also we have been keeping the high renewal rate of license support contracts and the attach rate for the on-premise license.

[Hardware Systems]

In Hardware Systems segment, the Company released “Oracle Exadata Database Machine X9M” (upgraded version of X8M) combines Intel® Optane™ DC persistent memory in September 2021. The inquiry for this machine is strong and the impact on shipments has gradually eased because of shortage of the semiconductor chip worldwide, however we are continuously examining our business status.

Exadata X9M removes storage bottlenecks and dramatically increase performance for the most demanding workloads such as Online Transaction Processing (OLTP), analytics, IoT, fraud detection, and high frequency trading.

[Services]

In Services segment, the number of composite projects from Consulting Services taking advantage of the Company’s comprehensive product and service portfolio has increased steadily. They include projects for platform transition from the on-premise environment to the IaaS and PaaS environment and those for linkage with SaaS solutions such as the ERP cloud.

Revenue breakdown by business segments (Year to Date)

Item	FY2022 2nd Quarter		FY2023 2nd Quarter			May 2022	
	Amount	Comp.	Amount	Comp.	YoY	Amount	Comp.
	Million Yen	%	Million Yen	%	%	Million Yen	%
Cloud license & on-premise license	18,025	17.7	19,464	18.1	8.0	44,975	20.9
Cloud services & license support	66,201	64.8	69,864	64.8	5.5	132,636	61.8
Cloud & License	84,227	82.5	89,328	82.9	6.1	177,612	82.7
Hardware systems	7,101	7.0	7,458	6.9	5.0	15,429	7.2
Services	10,756	10.5	11,009	10.2	2.4	21,649	10.1
Total	102,084	100.0	107,796	100.0	5.6	214,691	100.0

*Amount is rounded down. Composition ratio and year-to-year comparison (% of change YoY) are rounded off.

(2) Qualitative Information on Financial Situation

Current assets at the end of the second quarter of the current fiscal year were 83,358 million yen (decreasing 1,441 million yen from the previous fiscal year end). Noncurrent assets of the Company at the end of the term stood at 151,442 million yen (decreasing 626 million yen from the previous fiscal year end).

Liabilities were 104,631 million yen (decreasing 6,881 million yen from the previous fiscal year end). Net assets totaled 130,168 million yen (increasing 4,813 million yen from the previous fiscal year end).

As a result, the ratio of shareholders' equity was 55.4 % (up 2.5 percentage points from the previous fiscal year end).

(3) Qualitative Information on Forecasts

There is no change to the forecast announced on June 24, 2022.

2. Quarterly Financial Statements and Main Notes

(1) Quarterly Balance Sheet

(Unit : Million yen)

Description	Previous term end (as of May 31, 2022)	Current term end (as of November 30, 2022)
Assets		
Current assets		
Cash and deposits	60,142	63,788
Accounts receivable-trade	20,784	15,775
Other	3,892	3,814
Allowance for doubtful accounts	-20	-20
Total current assets	84,800	83,358
Noncurrent assets		
Property, plant and equipment		
Buildings, net	8,628	8,203
Land	26,057	26,057
Other, net	1,111	1,046
Total property, plant and equipment	35,796	35,306
Intangible assets	1	0
Investments and other assets		
Long-term loans receivable from subsidiaries and associates	110,000	110,000
Other	6,270	6,134
Total investments and other assets	116,270	116,134
Total noncurrent assets	152,068	151,442
Total assets	236,868	234,800
Liabilities		
Current liabilities		
Accounts payable-trade	8,918	10,303
Accounts payable-other	4,672	3,870
Income taxes payable	12,313	11,311
Contract liabilities	80,047	74,218
Provision for bonuses	1,953	1,394
Other Provision	814	307
Other	2,792	3,225
Total current liabilities	111,512	104,630
Noncurrent liabilities		
Other	0	0
Total noncurrent liabilities	0	0
Total liabilities	111,513	104,631
Net assets		
Shareholders' equity		
Capital stock	25,067	25,094
Capital surplus	8,418	8,445
Retained earnings	93,156	96,796
Treasury stock	-1,399	-258
Total shareholders' equity	125,243	130,078
Subscription rights to shares	111	90
Total net assets	125,355	130,168
Total liabilities and net assets	236,868	234,800

(2) Quarterly Statement of Income
Cumulative Second Quarter

(Unit : Million yen)

Description	Previous term (From June 1, 2021 to November 30, 2021)	Current term (From June 1, 2022 to November 30, 2022)
Net sales	102,084	107,796
Cost of sales	52,385	56,417
Gross Profit	49,699	51,378
Selling, general and administrative expenses	15,620	16,671
Operating income	34,079	34,707
Non-operating income		
Interest income	9	48
Foreign exchange gains	81	57
Others	16	24
Total Non-Operating Income	107	130
Non-Operating expenses		
Others	8	3
Total Non-Operating expenses	8	3
Ordinary Income	34,177	34,834
Extraordinary Income		
Gain on reversal of subscription rights to shares	5	14
Total Extraordinary Income	5	14
Income before income taxes	34,182	34,848
Income taxes	10,497	10,689
Net Income	23,685	24,158

(3) Statement of Cash Flows

(Unit : Million yen)

	Previous term (From June 1, 2021 to November 30, 2021)	Current term (From June 1, 2022 to November 30, 2022)
Net cash provided by (used in) operating activities		
Income before income taxes	34,182	34,848
Depreciation and amortization	871	660
Share-based compensation expenses	6	2
Increase (decrease) in allowance for doubtful accounts	-84	-
Increase (decrease) in provision for bonuses	-1,161	-558
Increase (decrease) in other provision	-465	-507
Foreign exchange losses (gains)	-45	-39
Interest and dividends income	-16	-55
Loss (gain) on sales and retirement of noncurrent assets	6	0
Decrease (increase) in notes and accounts receivable-trade	6,520	5,009
Decrease (increase) in other current assets	4,554	136
Increase (decrease) in notes and accounts payable-trade	-953	1,384
Increase (decrease) in accounts payable-other	-682	-602
Increase (decrease) in contract liabilities	-9,993	-5,829
Increase (decrease) in other current liabilities	-1,476	335
Other, net	1,183	1,229
Subtotal	32,446	36,014
Interest and dividends income received	9	6
Income taxes paid	-13,355	-11,557
Net cash provided by (used in) operating activities	19,099	24,463
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-117	-384
Proceeds from sales of property, plant and equipment	13	4
Purchase of intangible assets	-1	-0
Proceeds from loans receivable	100,000	-
Payments of guarantee deposits	-10	-0
Proceeds from refund of guarantee deposits	12	0
Net cash provided by (used in) investing activities	99,895	-379
Net cash provided by (used in) financing activities		
Proceeds from issuance of shares	35	45
Purchase of treasury stocks	-3	-4
Proceeds from sales of treasury stocks	0	0
Cash dividends paid	-146,861	-20,519
Net cash provided by (used in) financing activities	-146,829	-20,477
Effect of exchange rate change on cash and cash equivalents	45	39
Net Increase/(Decrease) in cash and cash equivalents	-27,787	3,645
Cash and cash equivalents at beginning of period	53,964	60,142
Cash and cash equivalents at end of period	26,176	63,788

(4) Notes to Quarterly Financial Statements
(Notes to Going Concern): Not Applicable

(Notes to significant changes in the stockholders' equity): Not Applicable

(Adoption of specified accounting methods for the preparation of quarterly non-consolidated Financial statements)

The Company has adopted a method in which tax expenses are calculated by multiplying quarterly net income before tax by effective tax rates estimated in a reasonable way, after applying tax effect accounting to net income before tax for the fiscal year under review. Income taxes-deferred is stated including corporate tax.

(Additional Information)

(Accounting estimates for the impact of the spread of the new COVID-19 infection)

There has been no significant change in the assumptions and accounting estimates regarding the impact of the COVID-19 infection described in (Additional Information) of the Annual Securities Report for the previous fiscal year.

(Segment Information, etc.)

【Segment Information】**I . Previous second quarter under review (from June 1, 2021 to November 30, 2021)**

Segment sales and operating income (loss) by reportable segment

(Unit: Million Yen)

	Reportable operating segments				Adjustment (Note) 1	Amount on Statement of Income (Note) 2
	Cloud and license	Hardware Systems	Services	Total		
Sales						
External customers	84,227	7,101	10,756	102,084	-	102,084
Intersegment net sales or transfer	-	-	-	-	-	-
Total	84,227	7,101	10,756	102,084	-	102,084
Operating income (loss)	33,729	317	2,456	36,503	-2,423	34,079

(Notes): 1. Segment profit adjustment of minus 2,423 million yen is a Company-wide expense, which primarily relates to administration departments that do not belong to any reported segment.
2. Segment profits are adjusted in comparison with operating income in the statement of income.

II . Current second quarter under review (from June 1, 2022 to November 30, 2022)

Segment sales and operating income (loss) by reportable segment

(Unit: Million Yen)

	Reportable operating segments				Adjustment (Note) 1	Amount on Statement of Income (Note) 2
	Cloud and license	Hardware Systems	Services	Total		
Sales						
External customers	89,328	7,458	11,009	107,796	-	107,796
Intersegment net sales or transfer	-	-	-	-	-	-
Total	89,328	7,458	11,009	107,796	-	107,796
Operating income (loss)	34,515	299	2,352	37,167	-2,460	34,707

(Notes): 1. Segment profit adjustment of minus 2,460 million yen is a Company-wide expense, which primarily relates to administration departments that do not belong to any reported segment.
2. Segment profits are adjusted in comparison with operating income in the statement of income.